

**AN ASSESSMENT OF THE IMPACT OF
MICROFINANCE PROGRAMME ON SOCIO-
ECONOMIC WELL-BEING AND BUSINESS
GROWTH OF MICRO ENTREPRENEURS IN
NIGERIA: A CASE STUDY OF COWRIES
MICROFINANCE BANK**

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UNIVERSITI SAINS MALAYSIA.

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MICROFINANCE BANK**

by

ADIJAT OLUBUKOLA OLATEJU

**Thesis submitted in fulfilment of the requirements
for the degree of Doctor of Philosophy**

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DEDICATION

This work is dedicated to **Almighty Allah-the Most high, the Magnificent and Benevolent;** my late father, **Alhaji Rasah Adebisi Usman,** my late son, **Akhtar Kehinde Oluwatobiloba Olateju,** and **all female single parents.**

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LIST OF ABBREVIATIONS

ACCION	Americans for Community Cooperation in Other Nations
ADPs	Agricultural Development Programmes
ATT	Average Treatment effect on the Treated
BLP	Better Life Programme
BRC	Business Plan Competition
BPR	Bank Perkreditan Rakyat
BRI	Bank Rakyat Indonesia
CB	Community Bank
CBN	Central Bank of Nigeria
CIA	Conditional Independence Assumption
CMC	CASHPOR Micro Credit
CMFB	Cowries Micro-Finance Bank
CTGF	Cotton, Textile and Garment Fund
CRS	Catholic Relief Services
DEFFRI	Directorate of Food, Road and Rural Infrastructure
DFIS	Development Financial Institutions
DMBs	Deposit Money Banks
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
FEAP	Family Economic Advancement Programme
FGDs	Focus Group Discussions
FIAM	Foundation for Integrated Agricultural Management
FINCA	Foundation For International Community Assistance

BLRD	Better Life for Rural Dwellers
FSP	Family Support Programme
GDP	Gross Domestic Product
GMR	Global Monitoring Report
GRP	Green Revolution Programme
IFIs	International Financial Institutions
ILO	International Labor Organisation
IMF	International Monetary Fund
ITT	Intention To Treat
LASMI	Lagos State Micro Finance Institution
LASU	Lagos State University
LDV	Limited Dependent Variable
LGAs	Local Government Areas
MD	Managing Director
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
MIX	Microfinance Information Exchange
MSMED	Micro, Small and Medium Enterprises Development
MSMEs	Micro, Small and Medium Enterprises
NACB	Nigeria Agricultural and Cooperative Bank
NAFPP	National Accelerated Food Production Programme
NALDA	National Agricultural Land Development Authority
NAPEP	National Accelerated Poverty Eradication Programme
NBCI	Nigeria Bank for Commerce and Industry
NBS	National Bureau of Statistics

NDE	National Directorate of Employment
NDIC	National Deposit Insurance Corporation
NGOs	Non-Governmental Organizations
NEEDS	National Economic and Empowerment Development Strategy
NERF	National Economic Reconstruction
NERFUND	National Economic Reconstruction Fund
NHIS	National Health Insurance Scheme
NIDB	Nigeria Industrial Development Bank
NME	Non-poor Micro Entrepreneur
OCWD	Organization For Communal Welfare Development
OFN	Operation Feed the Nation
PBN	People's Bank of Nigeria
PBT	Profit Before Tax
PCECE	Per Capita Expenditure on Children's Education
PCEH	Per Capita Expenditure on Health
PCI	Per Capita Income
PME	Poor Micro Entrepreneur
PPI	Progress out of Poverty Index
PSM	Propensity Score Matching
PULSE	Peri-Urban Lusaka Small Enterprise.
RCT	Randomized Control Trial
RFA	Rural Friends Association
ROSCAS	Rotating Savings and Credit Associations
SAP	Structural Adjustment Programme
SEWA	Self Employment Women Association

SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SMIDA	Small and Medium Scale Industries Development Agency
SMEDAN	Small and Medium Enterprise Development Agency of Nigeria
UN	United Nation
UNESCO	United Nation Education, Scientific and Cultural Organization
You –Win	Youth With Innovation

**SATU PENILAIAN IMPAK PROGRAM KEWANGAN MIKRO TERHADAP
KESEJAHTERAAN SOSIO EKONOMI DAN PERTUMBUHAN PERNIAGAAN
USAHAWAN-USAHAWAN MIKRO DI NIGERIA: SATU KAJIAN KES
TERHADAP BANK KEWANGAN MIKRO COWRIES**

ABSTRAK

Nigeria sebagai sebuah negara membangun telah berhadapan dengan kadar kemiskinan yang tinggi saban tahun hingga kini. Oleh kerana itu, kerajaan Nigeria telah melaksanakan pelbagai dasar dan program untuk memperbaiki keadaan tersebut. Walau bagaimanapun, kebanyakan dari dasar dan program yang dijalankan telah gagal akibat dari rasuah, halangan-halangan birokrasi, dasar yang tidak konsisten dan kekurangan pemantauan dan penilaian yang berkesan. Ekoran dari itu, kerajaan telah menyedari akan keperluan untuk melaksanakan dasar pro-miskin seperti program bank kewangan mikro (MFB) yang memberi tumpuan kepada kesejahteraan golongan miskin, meningkatkan pembangunan keusahawanan supaya pekerjaan dapat diwujudkan, dan bagi tujuan menjana pembangunan sosio-ekonomi. Kerajaan, melalui Bank Pusat Nigeria (CBN) telah menggalakkan MFB untuk memberi pinjaman kepada Perusahaann-perusahaan Mikro, Kecil dan Sederhana (Micro, Small and Medium Enterprises atau MSMEs) dengan perhatian yang lebih kepada perusahaan-perusahaan mikro (ME). Objektif-objektif kajian ini adalah untuk: (1) mengkaji faktor-faktor yang mempengaruhi penyertaan ME dalam program-program MFB di Nigeria; (2) menilai kesan program-program MFB ke atas kesejahteraan sosioekonomi ME di Nigeria; (3) menilai kesan program MFB ke atas pertumbuhan perniagaan ME di Nigeria; dan (4) mengkaji masalah dan cabaran yang dihadapi oleh perusahaan-perusahaan mikro dalam mengembangkan perusahaan mereka di Nigeria. Kedua-dua data kuantitatif (melalui soal selidik) dan data kualitatif [melalui temubual dan Perbincangan Kumpulan Fokus (FGD)] telah digunakan bagi menjawab objektif-objektif di atas. Satu sampel yang mengandungi 550 orang ME; 250 daripadanya adalah peserta program MFB dan 300 bukan peserta program MFB telah dipilih dengan menggunakan teknik persampelan rawak mudah.

Sampel ini selanjutnya telah dibahagikan kepada kumpulan ME miskin (305) dan kumpulan ME bukan miskin (245). Kaedah regresi Tobit dan Kesepadanan Skor Kecenderungan (Propensity Score Matching) (PSM) digunakan untuk menganalisis data. Penemuan daripada regresi Tobit menunjukkan bahawa semua pembolehubah yang digunakan untuk mengukur penentu-penentu penyertaan dalam program MFB adalah signifikan dan mempunyai tanda yang dijangkakan bagi sampel penuh dan sampel miskin, kecuali pembolehubah usia yang didapati tidak signifikan bagi kedua-dua sampel. Walau bagaimanapun, bagi sampel bukan miskin, hanya empat pembolehubah sahaja yang didapati signifikan, dan pembolehubah-pembolehubah ini terdiri daripada umur, jumlah tahun pendidikan, keahlian dalam parti politik, dan pendapatan, manakala pembolehubah-pembolehubah lain adalah tidak signifikan. Hasil kajian dari kaedah PSM untuk bahagian pertama Objektif Dua menunjukkan bahawa kesan penyertaan dalam program MFB terhadap kesejahteraan ekonomi adalah lebih besar bagi peserta ME berbanding responden bukan peserta bagi keseluruhan sampel. Hasil kajian untuk bahagian kedua Objektif Dua menunjukkan bahawa kesan penyertaan dalam program MFB terhadap kesejahteraan sosial adalah lebih besar bagi ME peserta miskin berbanding yang bukan peserta, sementara bagi sampel penuh pula, kesannya adalah positif tetapi tidak signifikan untuk peserta dalam program. Walau bagaimanapun, bagi ME bukan-miskin, kesan program terhadap kesejahteraan sosial peserta dalam program adalah negatif dan tidak signifikan. Keputusan kita bagi Objektif Tiga menunjukkan bahawa penyertaan dalam program MFB mempunyai kesan yang positif dan signifikan dalam meningkatkan pertumbuhan perniagaan peserta ME miskin, sementara bagi ME peserta bukan-miskin dan untuk sampel penuh, kesannya adalah negatif dan signifikan, dan bagi ME peserta, ia adalah positif dan tidak signifikan. Hasil kajian Objektif Empat mendapati bahawa faktor-faktor utama yang menghalang pertumbuhan perniagaan ME di Nigeria adalah: modal yang tidak mencukupi yang sering disebabkan oleh jumlah pinjaman yang kecil, system pembayaran balik pinjaman yang tidak fleksibel, kekurangan infrastruktur asas dan kemudahan fasiliti terutamanya elektrik dan rangkaian jalan raya, dasar-dasar yang tidak konsisten dan tidak mesra CBN. Berdasarkan penemuan-penemuan ini, kajian

membuat cadangan-cadangan berikut kepada pihak MFB dan kerajaan: (1) Pihak MFB harus mensasarkan ME miskin, golongan perempuan dan golongan yang berpendidikan pertengahan apabila memberi pinjaman. Jumlah pinjaman perlu ditambah dan jadual pembayaran balik perlu lebih fleksibel; dan (2) Pihak kerajaan harus memastikan dasar-dasar CBN adalah konsisten dan mesra, dan patut menyediakan kemudahan infrastruktur dan fasiliti yang mencukupi seperti bekalan elektrik yang cekap dan jalan raya yang baik untuk menyokong aktiviti kedua-dua MFB dan ME.

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MICROFINANCE BANK**

ABSTRACT

Nigeria as a developing country has been facing high rates of poverty over the years. Given this, the government has embarked on many policies and programmes meant to ameliorate the situation. However, most of these policies and programmes have failed due to corruption, bureaucratic bottlenecks, inconsistency in policies, and lack of effective monitoring and evaluation. Hence, the government has realised the need to embark on pro-poor policies such as Micro-Finance Bank (MFB) programme with focus on the well-being of the poor, enhance entrepreneurship development, so that employment can be generated, and thereby bring about socio-economic development. The government, through the Central Bank of Nigeria (CBN) has encouraged MFB to lend to Micro, Small and Medium Enterprises (MSMEs) with more emphasis on Microenterprises (MEs). The objectives of this study are to: (1) investigate the factors that determine the participation of MEs in MFB programmes in Nigeria; (2) assess the impact of MFB programmes on socio-economic well-being of MEs in Nigeria, (3) assess the impact of MFB programs on the business growth of MEs in Nigeria; and (4) investigate the problems and challenges faced by MEs in expanding their businesses in Nigeria. Quantitative data (through questionnaire) and qualitative data [through Interview and Focus Group Discussions (FGDs)] were used to answer these objectives. A sample of 550 MEs; comprising 250 participants of MFB programmes and 300 non-participants of MFB programmes, were selected through a simple random sampling technique. The sample was further disaggregated into poor MEs (305) and non-poor MEs (245). The Tobit regression and Propensity Score Matching (PSM) methods were used to analyse the data. The findings from the Tobit regression indicate that all the variables used in measuring the determinants of participation in MFB programmes have the expected signs

and are significant for the full sample and poor sample, except for the variable age, which is insignificant for both samples. However, for the non-poor sample, only four of the variables were significant, and these variables are age, years of education, membership of a political party, and income while other variables were insignificant. The finding from the PSM for the first part of Objective Two indicates that the impact of participation in MFB programmes on economic well-being is greater for participant MEs compared to the non-participant ones for the entire samples. The results for the second part of Objective Two indicate that the impact of participation in MFB programmes on social well-being is greater for poor participant MEs compared to the non-participant ones, while for the full sample, the effect is positive but insignificant for participants in the programme. However, for the non-poor MEs, the effect of the programme on the social well-being of the participants in the programme is negative and insignificant. Our results for the Objective Three indicate that participation in MFB programmes has a positive and significant impact in enhancing the business growth of poor participant MEs, while for the non-poor participant MEs and for the full sample, the effect is negative and significant, and for participant MEs, it is positive and insignificant. The result of the Objective Four of the study indicates that the major factors that hinder business growth of MEs in Nigeria are: inadequate capital that often arise from small loan, inflexibility of the repayment system, lack of basic infrastructure and facilities especially electricity and road networks, inconsistent and unfriendly policies of the CBN. Based on these findings the study makes the following recommendations for the MFBs and the government: (1) the MFBs should target the poor MEs, female and middle educated groups when giving out loans. The loan amount should be increased and the repayment terms should be made flexible; and (2) the government should ensure that the policies of CBN are consistent and friendly, and must provide adequate infrastructure and facilities, such as efficient electricity supply and good road networks to support the activities of both MFBs and the MEs.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Poverty is a global phenomenon afflicting both the developed and developing nations of the world. Though, the prevalence rate may differ among countries, but there is no country that is immune from poverty.

Poverty is multidimensional in nature and varies from one society to another, depending on the norms, culture and practices of that society. In general, absolute poverty entails hunger, lack of shelter, ignorance, disease, unemployment, disempowerment, vulnerability, lack of representation and fundamental freedoms. Ultimately, poverty results in exclusion from social, economic and political participation.

Globally, poverty is alarmingly high. According to World Bank estimates 1.29 billion people lived in absolute poverty in 2008, with about 400 million of them in India and 173 million in China. However, sub-Saharan Africa has the highest level of absolute poverty of about 47%. The \$1.25 a day measure of poverty rate has not shown any sustained decline in sub-Sahara Africa since 1981. In absolute terms, the number of poor people in Africa has nearly doubled from 200 million in 1981 to 380 million in 2005 (Dugue, 2013; Sinding, 2008). However, with the recent optimism that the number of people living in extreme poverty is likely to fall for the first time below 10% of the world's population in 2015 (World Bank, 2015). The World Bank has recently review the poverty measurement benchmark from \$1.25 per day to \$1.90. Based on this new measure of poverty, the World Bank

predicted that 702 million people (1.6 percent) of the world population will be living in extreme poverty in 2015, which is a reduction from 902 million people (12.8%) of the global population in 2012.

According to the World Bank, this reduction in poverty level was due to the strong economic growth rate in emerging market, especially in India, and investment in education, health and social safety nets. However, as a result of the unstable financial market, chaos/unrest in some countries, high rise in unemployment and climate changes are obstacles that could affect the impact of this global poverty reduction in ending poverty by 2030. This is because the World Bank projected that about half of those living in extreme poverty by 2020 will emanate from conflict-affected region in sub-Saharan Africa.

Nigeria is the most populous country in Africa and the eighth most populous country in the world, with 7.3% growth in GDP in 2011. The country is also one of the world's largest producers of crude oil and has a large natural gas reserve, with vast agricultural lands, natural and human resources (World Bank, 2009). In Nigeria, though crude oil accounts for over 90% of export earning, agricultural sector, is still the largest employer of labour in the country (Central Intelligence Agency [CIA], 2009).

However, despite the abundant natural resources such as oil, coal, cocoa, rubber, tin and timber the country still wallows in poverty, as the poverty rate measured in relative term (which is the official poverty measurement in Nigeria), continues to soar over the years. For instance, in 1980 it was 17.1 million but increased to 34.7 million in 1985. Though the rate declined between 1985 and 1992 (Abdullahi, 2012), it has been increasing over the years. For instance, in 2010 based

on relative poverty, the figure was 112,470,000 out of the 163 million Nigerians i.e. 69% of the population (NBS Survey, 2004 & 2010). The UNDP Human Development Report describes Nigeria as a rich nation with poor population and the poorest among the OPEC member countries (Amaghionyeodiwe & Adediran, 2012).

Similarly, other measures of poverty still put the country's poverty level on a remarkably high side. This is evident in the 2010 survey by the National Bureau of Statistics (NBS), which put the Nigeria absolute poverty measure in 2010, at 99.294 million or 60.9%, the dollar per day poverty measure, at 61.2%; and the subjective poverty measure level, at 93.9% out of 163 million population (Ofoegbu, 2013).

When distributing the population based on poverty status, into extreme poor, moderate poor and non-poor, it was discovered that the proportion of the extreme poor rose from 6.2% in 1980 to 29.3% in 1996, reduced to 22% in 2004 but almost doubled in 2010 to 38.7% (Gabriel, 2012). However, for the moderate poor, the situation was quite different as the proportion increased between 1980 and 1985 from 21.0% to 34.2% but fell slightly to 30.3% in 2010. The percentage of non-poor on the other hand was higher in 1980 as it stood at 72.8%. This dropped to 57.3% in 1992 and with a significant decline to 31% in 2010. This trend in poverty was believed to have continued in 2011 as anti-poverty measures and strategies are not put in place (NBS Survey, 2010). These statistics show the prevalence of poverty in Nigeria from 1980 to 2010, indicating how people are dropping from the top of the pyramid to the bottom of the pyramid.

On the contrary, the country's GDP at Purchasing Power Parity (PPP), almost tripled from \$170 billion in 2000 to \$451 billion in 2012. However, when the informal sector that is often excluded is added to the GDP figure, the GDP (PPP)

should be about \$630 billion (African Economic Outlook, 2012). In the world, the country is ranked 30th regarding GDP (PPP) as at 2012 and third largest economy in Africa after South Africa and Egypt. Nigeria's economic growth has been about 7.4% annually, but it stood at 6.9% in 2011 driven by non-oil sector. This GDP growth was forecasted at 6.9% and 6.6 % in 2013 (African Economic Outlook, 2012).

It should, however, be noted that the growth rate of the economy has not reduced the poverty rate nor created employment. In 2011, about two-thirds of the population lived on less than one dollar a day, with a rise of 23.9 % in the rate of unemployment from 21.1% which was recorded in 2010. Regarding age group, the unemployment rate was 37.7% for the 15-24 age group and 22.4% for the age group 25-44 years, these figures indicate that a significant number of the working population are not gainfully employed (NBS, 2010).

In addition, the employment data also indicated that the number of persons entering the labour market has not been stable over the years with increased from 2007 to 2009, but a significantly fall from between 2009 to 2010 and rise in 2010 to 2011. This was as a result of the entrance on the average of 1.8 million new entrants into the active labour market each year within the period (Umuteme, 2013). This is largely due to the increase in the turnout of graduates from the country's various institutions coupled with other factors.

The Gini-coefficient, which is the measure of income inequality, is also in contradiction with Nigeria's GDP growth rate. The Gini-coefficient increased to 0.447 in 2010 from 0.4296 in 2004, indicating an increase in inequality by 4.1 per

cent at the national level. This shows a contrast with the higher economic growth recorded during the period under review.

Poverty in Nigeria has been traced to corruption, bad governance, rapid population growth, unemployment, debt overhang, low productivity, under-utilisation of resources in both natural and human resources, inconsistency in policies, resource curse, and over-dependence on the oil sector (Arogundade, Adebisi & Ogunro 2011; Obadan, 2001; Ogwumike, 2004).

Reducing poverty has been one of the most difficult challenges facing the world, most especially the developing countries. Nigeria, as a developing nation, is also faced with the problem of eradicating poverty. However, various efforts have been embarked upon by the government at different levels to eliminate poverty since 1970. These include the creation of the Directorate of Food, Road and Rural Infrastructure (DEFRI), Better Life Programme (BLP), National Directorate of Employment (NDE), Peoples' Bank of Nigeria (PBN), Family Support Programme (FSP), Family Economic Advancement Programme (FEAP), National Acceleration for Food Production (NAFPP), National Directorate of Employment (NDE), National Health Insurance Scheme (NHIS), National Accelerated Poverty Eradication Programme (NAPEP), and National Economic and Empowerment Development Strategy (NEEDS) (Arogundade, et al., 2011; Wakili, 2012).

However, despite the fact that most of these programmes could have enhanced economic growth and development, they however failed to achieve the required objectives due to corruption, inconsistency and lack of continuity in policy, lack of effective monitoring/evaluation, contradiction between policy decision and policy target, political influences, and excessive dependence on a mono-cultural oil

economy. It should, however, be noted that, due to the failure of most of these programmes and policies in alleviating poverty in Nigeria, the Government has realised the need to change direction in its policies and strategies towards microfinance institutions. This is because microfinance banks have been seen to work in some countries such as Bangladesh, Indonesia, Bolivia, Kenya, and India.

Also, the Central Bank of Nigeria (CBN) in 2005, based on the outcome of the gathering of 151 Heads of State at the UN headquarters in September 2005 at the World Summit, which aimed at reviewing progress achieved on the Millennium Development Goals (MDGs). At the end of the summit, microfinance was perceived as a powerful tool for achieving the MDGs, especially in the area of eradicating extreme poverty and halving world poverty by 2015. Hence, the UN summit of 2005 was launched as the International Year of Microfinance (CBN, 2005b). This led to the conscious use of microfinance as a means for reducing poverty most especially in developing countries (Feasley, 2011). This made the CBN to emphasis on Microfinance as an avenue for entrepreneurial development, by introducing Microfinance Policy, Regulatory and Supervisory Framework in December 2005. This Monetary Policy Framework serves as a guide and regulation for the operation of the existing and new microfinance in Nigeria, and as another strategy to reduce poverty among the economically active poor.

The Microfinance Policy, Regulatory and Supervisory Framework for Nigeria has been revised in 2008, 2011 and recently, in 2012 with some key modifications in areas such as capital base requirement, management procedures, the number of branches and with more emphasis being placed on Microenterprise.

However, some studies have posited that despite developing the right policy and regulatory framework for microfinancing in Nigeria (CBN, 2005), the beneficiaries of microfinance banks remain an insignificant proportion of the people in need of microfinance bank services (Abosede, 2007; Eluhaiwe, 2005; Idolor, 2007; Olaitan, 2005; Ukeji, 2005).

In addition, it has been discovered by Demirgüekunt and Klapper (2012) that many countries outreach of financial institutions remain a small percentage of the population, as only 41% of adults in less developed countries have account with formal financial institutions, 8% reported having originated new loan from formal financial institutions in the past 12 months and 2% reported to have paid for their health insurance from their personal pocket in Nigeria (Ledgerwood et al., 2012).

About 1.5 billion people are between the age of 12 and 24 years. Out of this figure, 8.5% (1.3 billion) live in less developed countries (Ledgerwood et al., 2012). Although, the “youth bulge” in East Africa and Central Europe is dropping, the population of the youth is however projected to increase in sub-Saharan Africa for the next 40 years. For instance, it is expected that half of the population will be 25 years or younger. In the world, the unemployed youth amount to 42% with the majority of these young people living in developing countries with little or no access to financial services and also lack education that can assist them to be productive (Ledgerwood et al., 2012).

In Nigeria, microfinance has been grouped into -informal and formal microfinance institutions. The informal institutions consist of Rotating Savings and Credit Associations (ROSCA) (who are variously and locally called *Ajo*, *Esusu*, *Adashi*), moneylenders, friends, family and saving clubs. While the formal

microfinance banks are built around the formal institutions that include the erstwhile Community Banks, Non-Governmental Organisations and Government institutions. These formal microfinance banks have assisted the poor in accessing credit, most especially those that were not served by the Universal banks, because of their stringent requirements and also those that could not access credit through the informal money lender due to the high cost of fund (Beyene, 2008).

However, in the past, there have been unregulated micro credits that were not acknowledged officially by the government but by the community, social and cultural groups. Such small micro credits later developed into the Community Bank during the President Ibrahim Babangida regime. It should be noted that the modalities employed in the past have been different from the current microfinance as we now have a well formalised system in place. For instance, in the past, the poor borrowed money from money lenders who are landlords, traders or owners of capital operating at an informal level. There is also group contributions, where people come together to contribute money to a central pool like seed money and this money is rotated among the members as loan with little or no interest. In both urban and rural Nigeria, this loan system still persists. Indeed, it is seen as a cultural attributes or practice for economic empowerment. With the increasing rate of unemployment over the years, and insufficient loanable funds, since they often derive their loanable funds from individual and savings mobilised among groups, it becomes difficult for the informal microcredit to serve the poor.

However, despite the various poverty policies in Nigeria and the encouragement by the UN Summit on MDGs, the unemployment in Nigeria is seriously still high. Over the years, the number of unemployed in Nigeria has soared

since 2004. It increased from 11.9% in 2004 to 12.30% in 2006, and rose again to 14.9% in 2008, further increased to 21.10% in 2010 and 23.90% in 2011. Additionally, female unemployment rate is considered greater than their male counterparts and with evidence of high unemployment rate in the rural area (24.2%) than the urban area (15.2%) (NBS, 2010). This has resulted in the migration of people from the rural areas to the urban areas in search of employment making the urban area to be congested.

With the high rate of unemployment in Nigeria and the failure of past policies and programmes, the government has realised the need to place more emphasis on the MSMEs as the engine of growth and development (Ayanda & Laraba, 2011). This is because, it is believed that this sub-sector has the potential to employ more labour as a result of the small capital requirement, ease of operation than the large enterprises and ability to encourage entrepreneurship development (thereby generating income and thus reducing poverty). Available data show that this sector contributes over 55% of GDP, over 65% of total employment in developed countries. Moreover, the sector contributes over 60% of GDP with over 70% of total employment in low income countries. While it contributes about 70% of the GDP and 95% of total employment in middle income countries. In Nigeria, based on data from National Bureau of Statistics (NBS) survey, this sector's contribution to employment stood at 32,414,884 (63%) out of the 51,224,115 employed people and contributed to National Gross Domestic product in nominal terms at 46.54% as at 2010 (Momoh, 2013).

Micro, Small and Medium Enterprises (MSMEs), are essential to the development of any economy as they have the potential for employment generation,

improvement of local technology, diversification of output, encouragement of local entrepreneurship and forward integration with large scale industries. In Nigeria, the potential of the MSMEs is believed to be underutilised, as lack of funds often impede their operations, and lack of basic infrastructure (like electricity and good road network) affecting their contribution to economic growth and development (NBS, 2010).

The major challenges facing this sector have been identified as access to finance, with others ranging from poor infrastructure, inconsistency in government policies, lack of workspace, multiple taxation and, more importantly, poverty. (Momoh, 2013). Among these challenges, inadequate financing takes a very crucial position, and the commercial banks that are the largest source of fund to MSMEs often shied away from their responsibility because of the risk and uncertainties that they perceived existed in undertaking such a venture.

Recently, as a result of the need to provide employment in order to earn income and improve the well-being of the people, the government of Nigeria has sought to put emphasis on the MSMEs sector. The sector has been neglected for some time, although some policies were put in place to help stimulate it in the past. These include: the N200 billion Small and Medium Scale Enterprises Guarantee Schemes, Counterpart Funding Scheme of the Bank of Industry; the Youth Enterprise With Innovation in Nigeria (You Win) Programme; Campaign for patronage of made in Nigeria Products, the N2 billion NERFUND facility; the N5 billion Dangote Fund for MSMEs, the N200 billion SME Restructuring/refinancing Fund; the Small and Medium Enterprises Equity Investment Scheme (SMEEIS); and the Microfinance Policy, Regulatory and Supervisory Framework, in 2005.

In addition, some intervention funds have also been set aside to assist the MSMEs sector, such intervention funds are: the N54 billion Small and Medium Industries Equity Investment Scheme, which is an initiative of the Bankers Committee. This entails the setting up of 10% of the profit of the banks before Tax (PBT), for lending and equity investment in Small and Medium Scale Enterprises (Moses-Ashike, 2012). The second intervention fund that is coming from CBN is the N220 billion MSMED fund that aims to provide wholesale funds to microfinance Banks at a low interest rate, so that they can lend to Micro and Medium Enterprises (Moses-Ashika,2012). The third intervention fund is the public fund from the federal government that is channelled through the state government by ensuring that all state governments set aside 1% of their annual budget to assist the microfinance banks. It should, however, be noted that it is easier to announce the launch of developmental programmes or intervention funds for any financial institution in Nigeria but accessing such funds is usually difficult for the microfinance banks in Nigeria.

Similarly, like other developmental programmes in the past that are often affected by change in government as most of the programmes went into extinction as soon as the regimes were brought to an end. As noted by Akanji (2006), previous policies by the government have not had any positive impact on MSMEs in Nigeria. Hence, the government has realised the need to emphasise on Microfinance, as access to loan, among others, has been seen as an important constraint on the sector due to the inability of the conventional financial institutions to attract credit to this sector because of the risk involved among other reasons. Since this sub-sector (Microfinance), has been effective in granting credit to the poor especially in some developing countries such as Bangladesh, Indonesia, India and Thailand (Taha,

2012), this makes the Nigeria government to emphasis on the microfinance as an avenue to help reduce poverty especial among the active poor.

It should, however, be noted that more emphasis is placed on Micro-Enterprises (MEs) among the MSMEs sector due to their significant contribution to employment and GDP, small capital requirement and ease of operation than the Small and Medium Scale Enterprises (SMEs). Available data indicate that of the total number of Micro, Small and Medium enterprises in Nigeria which stood at 17,284,674. From this figure, Microenterprises accounted for 17,261,753 (99.87%), while the small and medium enterprises accounted for 21,264 (0.12%) and 1,654 or (0.019%), respectively (Figure 1.1, shows the division of MSMEs sector in Nigeria) In addition, the MSMEs also contributed significantly to employment by adding 32,414,884. Of this figure, microenterprise contributed 32,375,406 (99.9%), while small and medium enterprises (SME) was 39,478 (0.1%) as at 2010 (NBS, 2010) and this is depicted in figure 1.2.

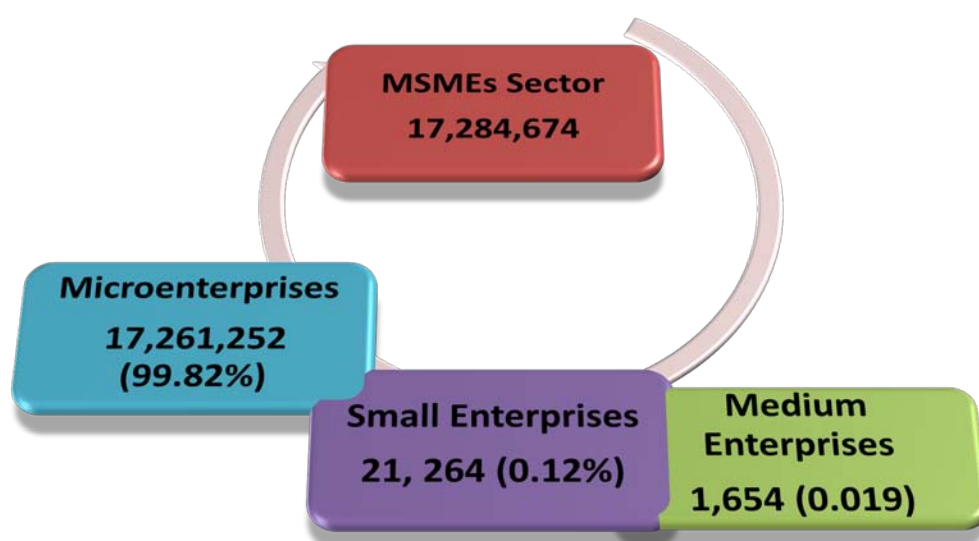


Figure1.1: Division of MSMEs sector in Nigeria

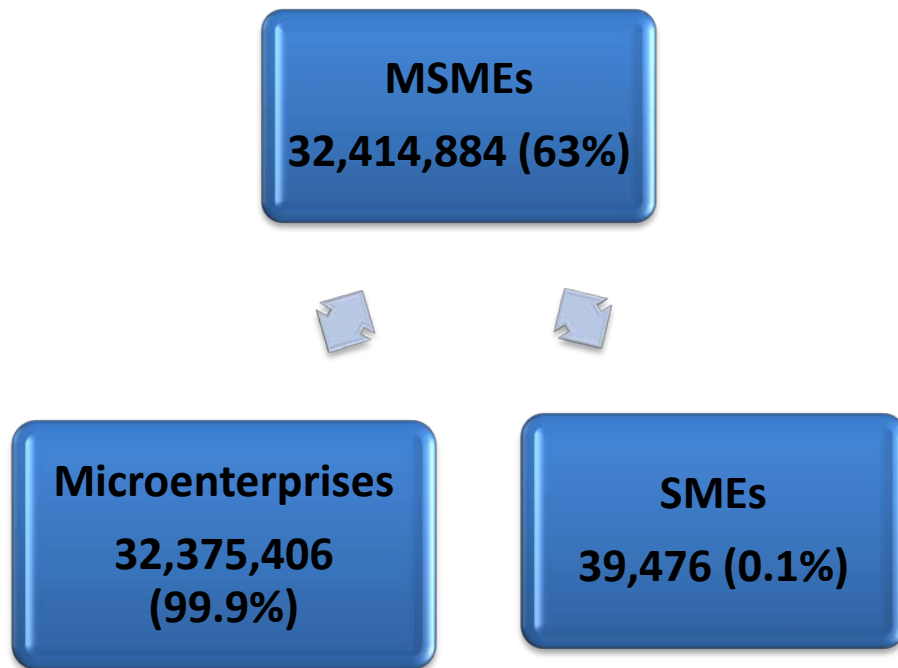


Figure1.2: Contribution of MSMEs Sector to Employment in Nigeria

Furthermore, the CBN in its 2005 Microfinance Policy, Regulatory and Supervisory Framework and the revised edition in 2008 emphasised on micro, small and medium scale enterprises (MSMEs). However, in the edition of the Microfinance Policy, Regulatory and Supervisory Framework in 2012, the monetary authority (CBN) changed its policy towards Micro, Small and Medium scale enterprises by placing emphasis on only the Microenterprises as it has been seen that the Microenterprises are the major employer of the vulnerable group in the country (CBN, 2012).

It is expected that the use of microfinance bank as an alternative to the previously used development programmes will help to enhance micro enterprises development through their lending programmes. This lending will help to ensure

socio-economic well-being and business growth of micro entrepreneurs, via job creation, creation of wealth, entrepreneurship development, and thus poverty reduction.

1.2 Problem Statement

Poverty has been a major challenge to economic and social development in Nigeria. Despite the high growth rate of the GDP, human and natural resources endowment of the country and the large chunk of money that various governments in the past had spent on poverty, poverty rate has continued to rise. The reason for this is that various poverty alleviation programmes in Nigeria do not significantly impact on the lives of the people, as many of the programmes are politically motivated due to high level of corruption, bureaucracy, inconsistency in policies and programmes among other reasons.

Nigeria, despite her huge natural resources in oil and other natural resources, is still placed high among the poorest countries in the world. This is a big embarrassment and challenges to a country that is often referred to as the “giant of Africa”.

As a result of the disappointing nature of the various policies and programmes used in the past to alleviate poverty, the government has seen the need to encourage the use of pro-poor policy, through microfinance, that will focus on the welfare of the poor. Such policies should favour job creation via the Micro Small Medium Enterprises (MSMEs) with more focus on microenterprise. This is because this sub-sector has been seen not only to create jobs but also to enhance entrepreneurship development and wealth creation.

It should, however, be noted that for microfinance bank to have meaningful impact on microenterprises in Nigeria, so that this subsector can play its role in employment creation, wealth creation, socio-economic well-being improvement, poverty reduction, economic growth and development, it is pertinent for the existing microenterprises to grow, in terms of either expansion in their business, additional branches, or to progress into Small and Medium Enterprises (SMEs).

However, in Nigeria what we have is a high level of poverty and a wide gap between microenterprises and Small and Medium Enterprises (SMEs), which according to NBS, is not as a result of the expansion in the Microenterprises but rather a diversion of SMEs into Microenterprises. This is evident from the Micro, Small and Medium Enterprises survey carried out in 2010 by the NBS. According to the survey, the number of MSMEs is estimated at 1, 7284,671 from this total, the number of Microenterprises is 1, 7261,753 (99.87%), while that of Small and Medium Enterprises is just 21,264 (0.12%) and 1,654 (0.01%) respectively.

Therefore, if this situation is not properly addressed, it may result in the SMEs sector going into extinction, and with the rise in the labour force over the years viz - 57.5million in 2006, 65.2million in 2010 and 67.3million in 2011. Also, on the average, there have been about 1.8 million new entrants into the active labour market, which is as a result of the high number of graduates, being churned out over the years from the various universities, mono technics, polytechnics and colleges of education in the country. This has further aggravated the unemployment situation in the country and hence, deepening the poverty rate.

1.3 Research Questions (RQs)

RQ1: What are the factors that determine MEs' participation in microfinance bank programme in Nigeria?

RQ2: How has microfinance impacted on the socio-economic well-being of MEs in Nigeria?

RQ3: To what extent has microfinance impacted on the business growth of microenterprises in Nigeria?

RQ4: What are the challenges and problems encumbering the expansion of microenterprises in Nigeria?

1.4 Research Objectives (ROs)

The general objective of this study is to assess the impact of microfinance bank programme on socio-economic well-being and business growth of MEs in Nigeria. Other specific objectives are to:

RO1: To investigate the factors that determine the participation of MEs in microfinance bank programme in Nigeria.

RO2: To empirically assess the impact of microfinance on the economic and social well-being of MEs in Nigeria.

RO3: To empirically analyse the impact of microfinance on the business growth of MEs in Nigeria.

RO4: To investigate the challenges and problems encumbering the expansion/growth of microenterprises in Nigeria.

1.5 Significance of Study

Assessing the impact of microfinance on microenterprises is imperative especially in a developing country such as Nigeria where resources are scarce and limited. Accessing the impact of microfinance banks on the microenterprises in Nigeria will enable us to determine the appropriateness and effectiveness of the programmes provided by microfinance banks to microenterprises. Such information will assist the government and policy makers in their decisions, policy improvement, policy changes, and budgetary allocations.

Furthermore, with regards to microfinance banks, the study will enable the banks to know where to extend their lending to and the areas where they need to improve on their products and services. With improvement in the products and services of microfinance banks activities and good policy implementation by the government, MEs and the community as a whole will benefit via employment generation, wealth creation, increase in income, and reduction in poverty.

1.6 Outline of Chapters

The study is organised into six chapters. The first chapter comprises the general information about the study. Most importantly, the chapter also comprises the statement of the problems, research questions, objectives of the study, the significance of the research and the outline of chapters.

Chapter 2 gives information about poverty scenario in Nigeria, Poverty measurements, poverty incidence, the poverty alleviation programmes used by various governments in the country, microfinance institutions, the historical origin of microfinance, microfinance in Nigeria, and government efforts in stimulating the

MSMEs sector. Chapter 3 of the study composed of three parts: empirical literature, methodological issues, and conceptual and theoretical framework. The empirical literature examines the relevant literature on the impact of microfinance banks on microenterprises on some outcome variables for both economic and social outcomes, while, the methodological issues, reviews the literature on microfinance institutions, the impact of microfinance banks in promoting business growth and development in microenterprises, the various methodologies used by past studies in analysing the effects of microfinance on microenterprises and also the strengths and weaknesses of these methodologies. Moreover, the conceptual and theoretical framework deals with the concepts and theory underlying the study.

Chapter 4 focuses on the methodology that was employed in the study, the research instruments used by the study to elicit information from the respondents, data, sampling procedures, and variables that were used in the study. Chapter 5 deals with the data presentation, findings of the study, general discussion and summary of the findings, while Chapter 6 concludes the study, gives some limitations of the study, with some policy recommendations and suggestions for further research.

CHAPTER 2

POVERTY, MICROFINANCE BANK AND MICROENTERPRISES IN NIGERIA

2.1 Poverty

Poverty is a global phenomenon as every human being needs a range of basic necessities of life, such as food, clothing, shelter, water, education, and health care (Ogwumike, 2004), the inability to gain access to these basic necessities often result in poverty.

Poverty is present in every part of the world, but the prevalence differs from one country to another, with rates higher in developing countries than in developed countries (Kenyon, 2008). According to the World Bank estimates, more than one person in every five people live on less than \$1 a day and nearly 1 billion people in the world live in extreme poverty and 2.8 billion survive on less than \$2 a day (Consultative Group to Assist the Poor [CGAP], 2013).

Poverty prevalence has been high in continents such as Africa, Asian, some parts of the Middle East and Latin America. According to the UN Food and Agricultural Organisation estimates in 2010, about 239 million people lack food in sub-Saharan Africa. It is also said that 925 million people lack food worldwide. Africa has the second largest number of people that lack food; Asia and Pacific have 578 million; this is mainly as a result of the large population of Asia continent when compared to sub-Saharan Africa (World Hunger, 2013). Sub-Saharan Africa has 30% of its population undernourished when compared to about 16% in Asia and Pacific (Food and Agricultural Organization [FAO], 2010). Hence, according to

FAO, about one in every three people who live in sub-Saharan Africa are hungry, this is far higher than any other area of the world, apart from South Asia. In 2008, for example, 47% of the population in sub-Saharan Africa lived on \$1.25 a day or less (World Hunger, 2013). The causes of poverty are believed to be the result of the unfriendly economic system, conflict and environmental factors such as drought, climate change and population growth. (World Hunger, 2013).

2.1.1 Poverty Measurement in Nigeria

a) Relative Poverty Measure:

The relative poverty measure is the addition of the expenditure of the households and this is further deflated using the Consumer Price Index (CPI). The deflation is usually carried out to capture seasonal and regional variation of the expenditure. Household with expenditure above two third of the total expenditure per capita are categorised as NON-POOR, on the other hand, those below it are POOR. Further decomposition of the poor indicates that households below one-third of total households' per capita expenditure are core-poor (extremely poor), While households whose expenditure are greater than one-third of the total expenditure but less than two-thirds of the total expenditure are MODERATE poor (NBS Survey, 2010).

b) Absolute Poverty Measure:

This is the objective measure of poverty. The measure is suitable for poverty headcount comparison among countries (NBS survey, 2010). This method is also referred to the food energy intake measure of poverty. The calculation is done by obtaining the food basket of the poorest 40 percent of the population (through

quintiles). Then we calculate the food expenditure that gives 3000 calories per day based on the national food basket for the poorest 40 percent, using the adult equivalent per capita expenditure. The value of the Naira is then obtained, which can be used to buy food that will be equivalent to 3000 calories. Thus, the sum of the non-food component through the average non-food expenditure of plus or minus 100 households around the core poverty line will result in objective (absolute poverty measure (NBS Survey, 2010).

c) Dollar Per Day measure:

The dollar per day measure of poverty in Nigeria is based on the World Bank dollar per day measurement and adjusted using CPI and the exchange rate. It should be noted that the poverty line was initially introduced by the World Bank in 1990, by setting it at \$1 per day; this was further adjusted in 2008 to \$1.25 per day. Recently, in 2015, the World Bank revised the poverty line and set it at \$1.90 per day, this is to reflect the differences in the cost of living across countries; nevertheless, the real purchasing power of the previous measurement is still maintained with this new measurement. However, for the purpose of analysis this study uses the \$1.25 per day measurement of poverty.

d) Subjective Poverty Measure:

This Measure is also called self-assess poverty measure as it is based on the opinion of the household members. This approach verifies from the household on whether they are very poor, poor, moderately poor, fairly rich or rich (NBS, 2010).

e) Gini Coefficient:

This measure shows the level of inequality across the states in the country.

2.1.2 Poverty Scenario in Nigeria

In Nigeria, poverty has been a serious issue at all levels of government, as the rate of poverty keeps increasing since 1980. Nigeria, having the largest population in sub-Saharan Africa with about 163 million as at 2010, and higher poverty rates in the Northern part of the country than the Southern part (NBS, 2010). Table 2.1 and Table 2.2 show the poverty scenario and incidence in Nigeria respectively.

Table 2.1

Relative Poverty: Non-poor, Moderate Poor and Extreme Poor

Year	Non-poor	Moderate poor	Extreme poor
1980	72.8	21.0	6.2
1985	53.7	34.2	12.1
1992	57.3	28.9	13.9
1996	34.4	36.3	29.3
2004	43.3	32.4	22.0
2010	31.0	30.3	38.7

Notes: NBS Harmonised Nigeria Living Standard Survey, 2010

Table 2.2

Relative Poverty Headcount, 1980-2010

Year	Poverty Incidence (%)	Estimated Population (Million)	Population In Poverty (Million)
1980	27.2	65	17.1
1985	46.3	75	34.7
1992	42.7	91.5	39.2
1996	65.6	102.3	67.1
2004	54.4	126.3	68.7
2010	69.0	163	112.47

Notes. Adapted from National Bureau of Statistics. HNLSS, 2010

According to the NBS Survey in 2010, the relative poverty line is N66,802.20. From Table 2.1, when dividing the population into extreme poor, moderate poor and non-poor, the rate of extreme poor rose from 6.2 percent in 1980 to 29.3 percent in 1996, it later fell to 22.0 percent in 2004 and by 2010, the rate has increased again to 38.7% (NBS Survey, 2010). However, for the moderate poor, the scenario was different as the proportion increased from 21.0 percent to 34.2% between 1980 and 1985 from and by 1996 and 2004 it decreased from 36.3 % to 32.4% and dropped to 30.3 % in 2010 (NBS Survey, 2012). For the non-poor, the rate was much higher in 1980; it stood at 72.8% compared to 57.3% in 1992. It fell significantly in 1996 to 34.4% and decreased further to 31% in 2010. Table 2.2, on the other hand, shows that the poverty incidence increased over the years from 27.2% in 1980 which almost doubled to 42.7% in 1992 which further risen to 69.0 % in 2010 (NBs Survey, 2012).

2.1.3 Poverty Alleviation Programmes in Nigeria

In Nigeria, various poverty alleviation programmes have been embarked upon by the different government. Table 2.3 shows the poverty reduction programmes used by the government to alleviate poverty in Nigeria.

Table 2.3
Some Poverty Alleviation Programmes in Nigeria

Programmes/policies --Period	Initiator	Target group	Nature of intervention	Objectives	Achievements	Challenges/Problems
National Acceleration Food Production Programme (NAFPP) - 1972	Yakubu Gowon	Peasant farmers	-Funding of Agricultural sector through the provision of loans & farm inputs using the cooperative societies	-To encourage food production -To ensure food security	Increase in the production of food especially grains	-Based heavily on co-operative approach and farmers that do not belong to a cooperative group were not attended to. - The programme lacks continuity, as the programme was stopped in 1976 as a result of its replacement with another programme by a new government
Nigeria Agricultural Co-operative Bank (NACB) -1972	General Yakubu Gowon	Peasant farmers	Credit facilities	-To provide funds for farmers & ensure food security	Insignificant	-lack of continuity and proper monitoring of projects
Operation Feed the Nation (OFN)- 1997	Olusegun Obasanjo	The whole nation	Provision of farm inputs, subsidies, & agrochemicals	-To achieve self-sufficient & self-reliance in food production -To ensure a healthy nation by encouraging the production & consumption of a balanced nutrition	-It created awareness about food storage and the reason to solve this shortage of food problem	-The teaching of farmers was done by graduates who were only theoretically inclined about farming methods, with no practical knowledge. -Farming was done on any available lands, without considering the fertility of the land - No formal or informal training was conducted for the participant of the programme -Concentration was on government establishments and people in authority neglected the peasant farmers that the programme was meant for.